

HOUSING

T E N N E S S E E

4th Quarter 2016

Tennessee dashboard 4th quarter 2016

(percent change over the year)

Weekly Unemployment Claims	▼ -18.0%	Total Home Permits*	▼ -10.7%
Total Nonfarm Employment*	▲ +2.3%	Mortgage Tax Collections	▲ +23.4%
Unemployment Rate (percentage points)*	▲ +0.07	Real Estate Transfer Tax Collections	▲ +19.8%
Homeowner Vacancy Rate (percentage points)	▼ -0.30	Home Prices*	▲ +6.7%
Rental Vacancy Rate (percentage points)	▲ +0.07	Mortgages Past Due (percentage points)	▲ +0.50
Single-Family Home Permits*	▲ +13.6%	Foreclosure Rate (percentage points)	▼ -0.03

*seasonally adjusted ▲ positive outcome for economy ▼ negative outcome for economy

Economic Overview

Over the year, Tennessee's economic dynamics have shown great improvement.

For the quarter, the number of initial claims for unemployment insurance rose 18% to an average of 3,211. Total nonfarm employment, which has been steadily rising since the fourth quarter of 2015, rose half a percent this quarter, largely fueled by the service sector. The unemployment rate reached 5.07%, up 0.24 percentage point from last quarter, as a result of an increasing labor force.

Over the year, Tennessee's economic dynamics have shown great improvement. The average number of initial claims for unemployment insurance fell by 689, almost 18%. Nonfarm employment increased around 2% in every industry shown in the table on the next page. The unemployment rate registered a slight rise of 0.07 percentage point.

Figure 1. Tennessee initial claims for unemployment insurance

(quarterly averages of weekly data, seasonally adjusted)



Tennessee initial claims for unemployment insurance are up 18% for the quarter and down 18% for the year.

Table 1. Selected Tennessee employment indicators

(thousands, seasonally adjusted)

	2015.4	2016.1	2016.2	2016.3	2016.4
Employment by industry (nonfarm)					
Total nonfarm	2,925	2,944	2,955	2,977	2,991
Goods-producing sectors	456	459	461	465	465
Manufacturing	337	340	343	345	344
Services-providing sectors	2,469	2,485	2,494	2,512	2,526
Labor force	3,091	3,112	3,128	3,151	3,166
Total employment	2,936	2,966	2,983	2,999	3,005
Unemployed	155	146	145	153	161
Unemployment rate	5.00%	4.70%	4.63%	4.83%	5.07%

Source: Bureau of Labor Statistics

Total nonfarm employment rose half a percent this quarter, largely fueled by the service sector.

¹ Selected employment indicators from past quarters have been updated to reflect the new 2016 benchmarking by the Bureau of Labor Statistics (www.bls.gov).

Vacancy Rates

Tennessee rates rose this quarter for both rental and homeowner vacancies. Compared to the third quarter of 2016, homeowner vacancy rates increased slightly to 1.70%. Rental vacancy rates, however, rose significantly, by 1.30 percentage points, to 8.20%.

Vacancy rates for the United States showed little to no change this quarter. Homeowner vacancy rates remained at 1.80%, and the rental vacancy rate rose 0.10 percentage point to 6.90%, quite a bit lower than Tennessee's.

State rental vacancy rates rose significantly for the quarter.

Over the year, U.S. vacancy rates have shown little change. However, Tennessee has shown greater variation, with the homeowner vacancy rate 0.30 percentage point lower than the fourth quarter of 2015 and the rental vacancy rate 0.7 percentage point higher.

Figure 2. Homeowner vacancy rate

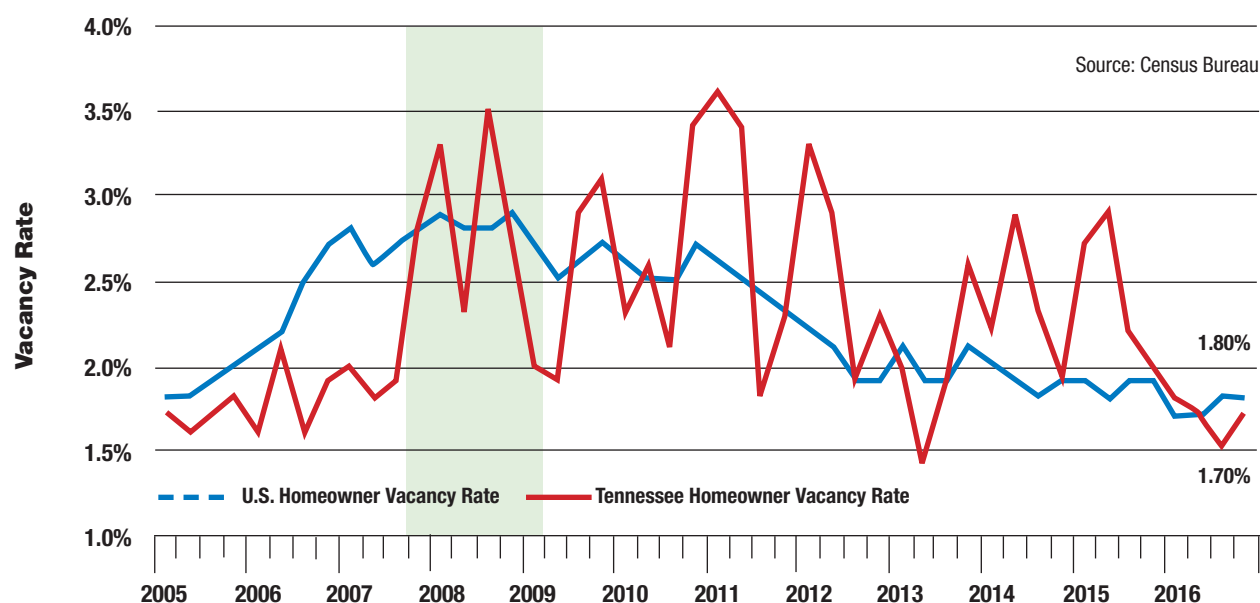
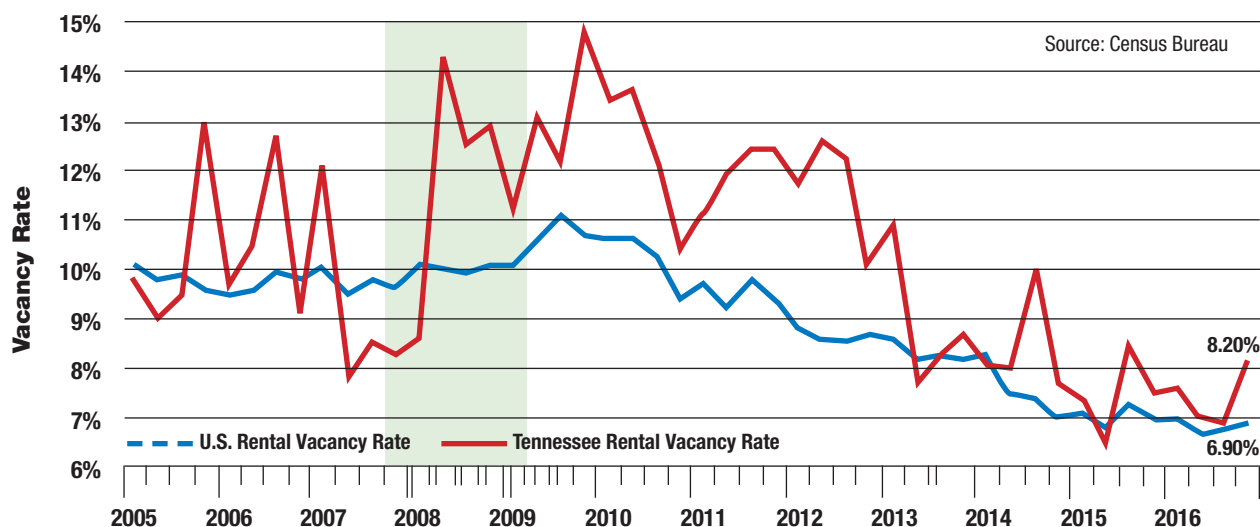


Figure 3. Rental vacancy rate



Housing Construction

In 2016, single-family permits greatly increased while multi-family permits plunged.

Single-family permits continued the positive trend that began in the first quarter of 2015. This quarter, annualized single-family permits increased by 4% to 26,700. Despite this growth, multi-family permits fell 8% to 9,300, and total permits decreased 6% to 34,200.

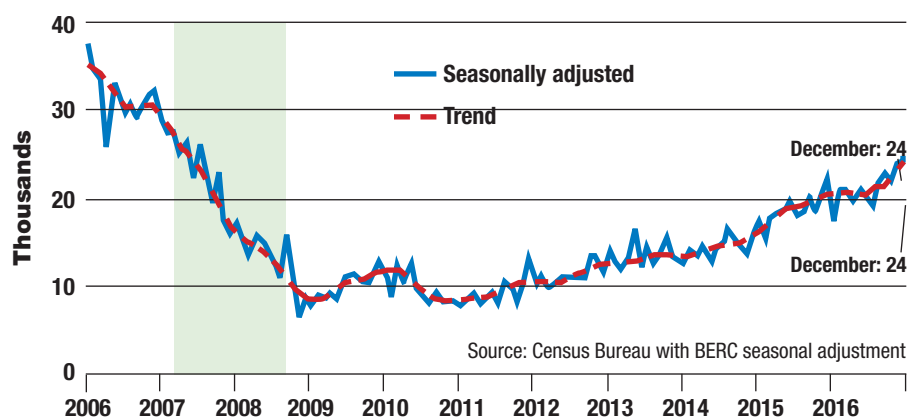
The South's performance closely resembled Tennessee's. Single-family permits were up 3% for the quarter. Multi-family permits fell significantly, by 15%. Total permits declined 3%.

The United States performed better than the state or the South. Total permits rose 1%, multi-family permits remained unchanged, and single-family permits increased by 5%.

Over the year, single-family permits greatly increased while multi-family permits plunged. All three areas tracked by this report showed an increase in single-family permits over the year—especially Tennessee, up 14%. In contrast, multi-family permits in all three geographies decreased by double-digit percentages, notably in Tennessee (42%) and the South (21%).

Figure 4. Tennessee single-family home permits

(thousands, seasonally adjusted annual rate)



In Tennessee, single-family permits rose 14% as multi-family permits fell 42% over the year.

Table 2. Permits issued for privately owned new housing

(thousands, seasonally adjusted annual rate)

Quarter	Single-Family Permits			Multi-Family Permits			Total Permits		
	Tennessee	South	U.S.	Tennessee	South	U.S.	Tennessee	South	U.S.
2013.4	16.8	326.2	617.4	6.5	163.4	387.0	22.0	490.3	998.2
2014.1	16.4	325.1	606.2	9.6	170.9	388.3	24.9	494.0	977.0
2014.2	16.3	328.7	615.7	7.1	165.6	394.2	25.1	495.8	1,017.4
2014.3	18.3	347.5	632.5	4.3	168.3	404.0	23.3	516.2	1,047.0
2014.4	17.7	349.9	645.0	12.6	176.1	415.7	29.0	525.2	1,048.0
2015.1	20.3	358.1	651.6	7.6	175.1	437.5	26.7	532.8	1,076.7
2015.2	22.9	373.6	687.1	10.6	191.8	571.6	35.4	567.5	1,259.0
2015.3	22.9	378.0	695.8	9.6	184.7	425.1	33.0	562.5	1,128.9
2015.4	23.5	387.0	708.1	16.2	199.4	495.0	38.3	584.0	1,195.4
2016.1	23.7	388.0	726.8	17.5	185.4	427.7	40.4	573.0	1,153.6
2016.2	24.8	402.1	750.2	8.7	176.4	396.1	35.6	581.5	1,146.7
2016.3	25.7	402.5	735.6	10.1	184.3	442.6	36.3	586.0	1,185.4
2016.4	26.7	414.6	772.6	9.3	156.7	443.8	34.2	568.3	1,202.6
Change from previous quarter	4%	3%	5%	-8%	-15%	0%	-6%	-3%	1%
Change from previous year	14%	7%	9%	-42%	-21%	-10%	-11%	-3%	1%

Source: Census Bureau

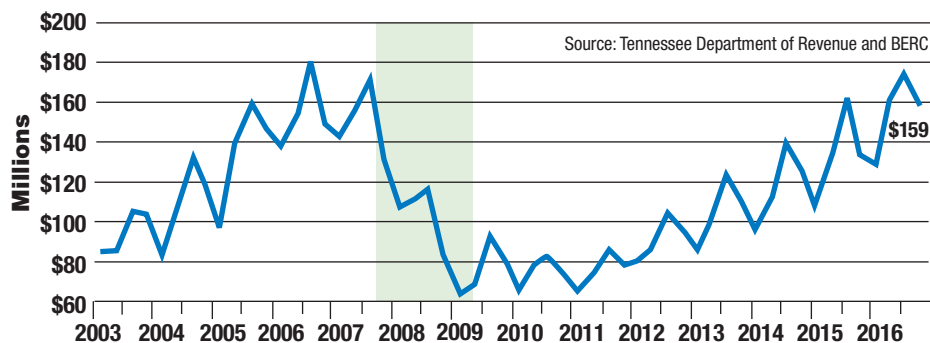
Real Estate Transactions & Mortgages

The annualized number of real estate transfer and mortgage tax collections took a dip this quarter compared to the third quarter of 2016. Mortgage tax collections fell nearly 6% or \$4.3 million. Similarly, real estate transfer tax collections declined by around 9% or \$14.9 million.

Although tax collections decreased this quarter, the annualized trend is considerably higher than in the fourth quarter of 2015. Mortgage tax collections are up nearly 24% or \$13.7 million. Additionally, tax collections for real estate transfers increased by almost 20% or \$26.3 million.

Figure 5. Real estate transfer tax collections

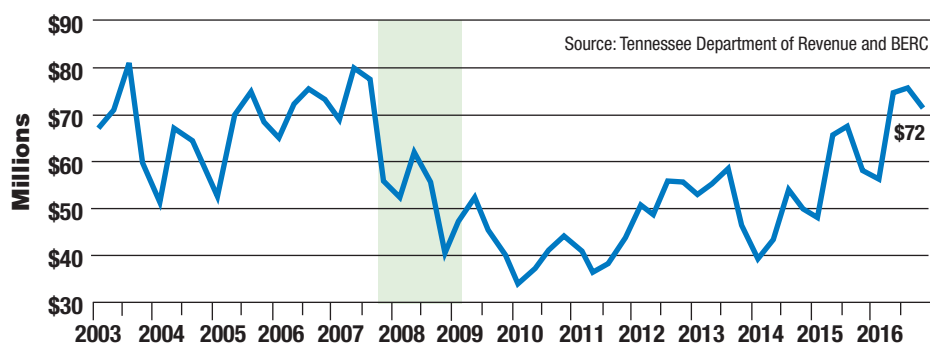
(millions, seasonally adjusted annual rate)



Real estate transfer tax collections dipped this quarter but rose for the year.

Figure 6. Mortgage tax collections

(millions, seasonally adjusted annual rate)



Mortgage tax collections were down for the quarter but way up for the year.

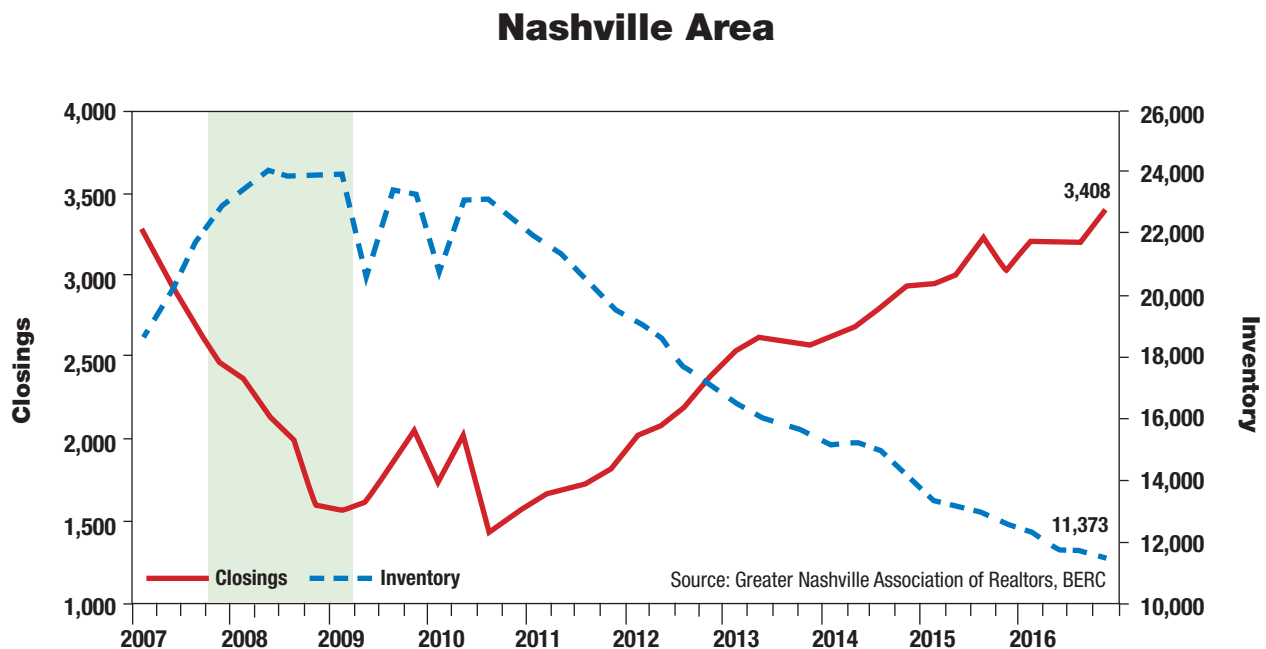
Home Sales

Closing are up and inventories down for all three areas for the quarter and the year.

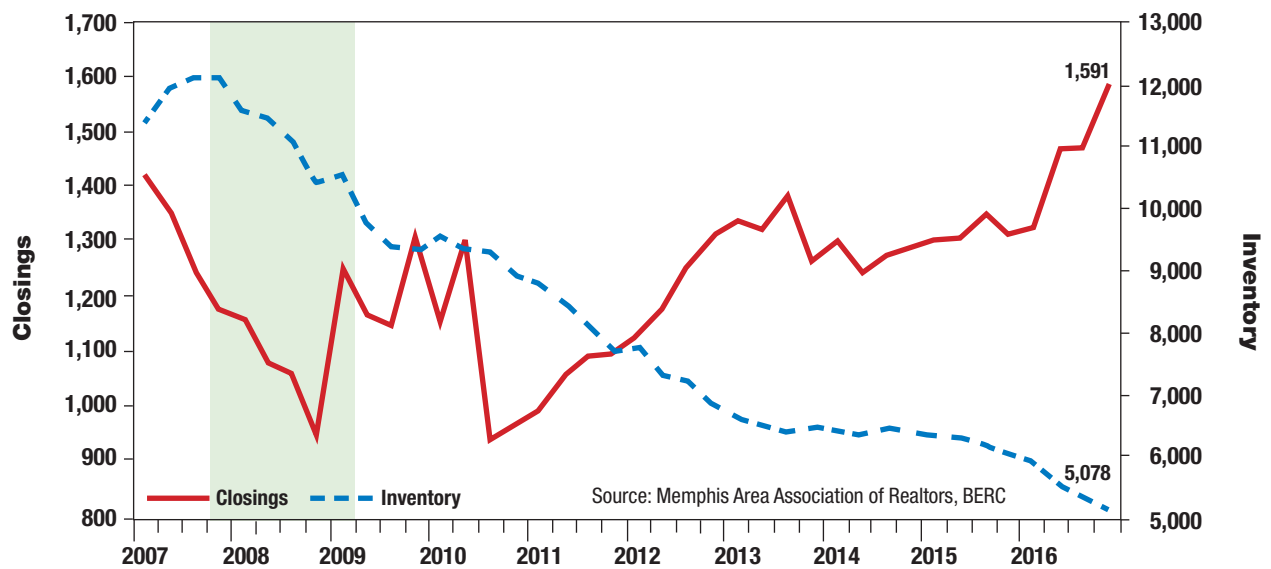
As demonstrated by home closings and inventories, the housing market is performing quite well. Closings rose significantly for the quarter in the three areas tracked in this report. In the Memphis and Knoxville areas, closings rose 8%. Over the year, the increase is even greater: 21% for Memphis and 13% for Knoxville. The Nashville area also saw growth, rising 7% for the quarter and 12% over the year.

Total single-family home inventories shrank this quarter, a positive housing market indicator. The biggest inventory declines were in Memphis, down 5%, and Knoxville, down 4%. Nashville inventories fell 2%. Mirroring the pattern for closings, the change in inventories over the year is also considerable. Inventories decreased 19% in Knoxville, 16% in Memphis, and 9% in Nashville.

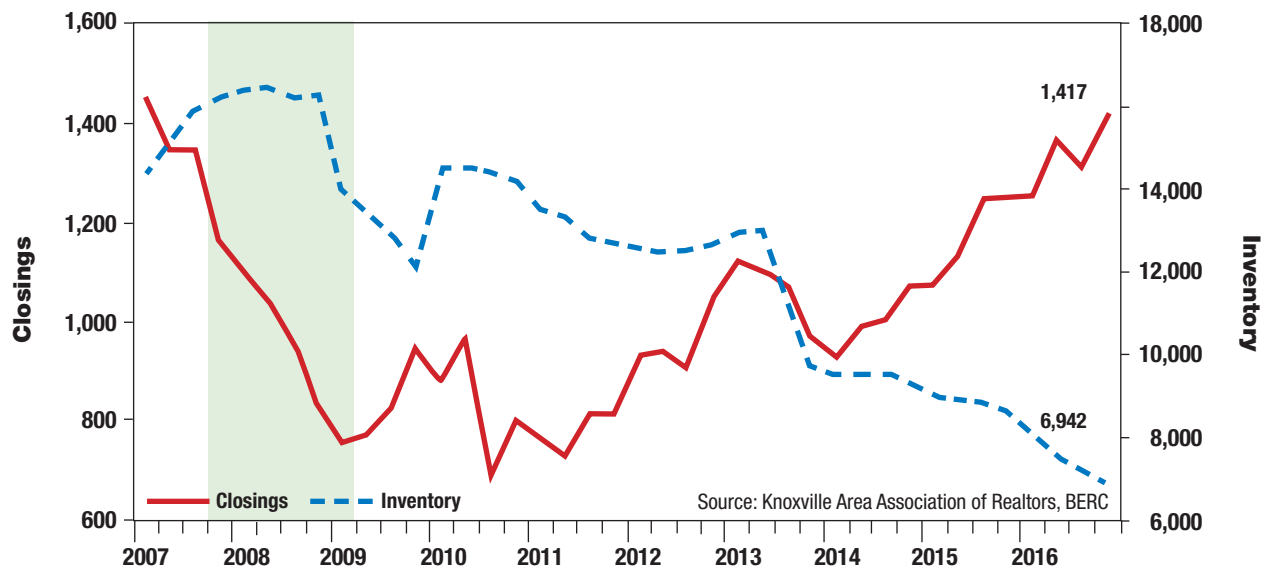
Figure 7. Single-family sales and inventory



Memphis Area



Knoxville Area



Home Prices

Nashville area housing prices rose 9.9% for the quarter.

For the past three quarters, the change in housing prices year to year has been positive for every area tracked by this report, demonstrating a strong housing market in some of the most populous areas in our state. The areas with the greatest increase this quarter are the Nashville MSA, up 9.9%; the Memphis MSA, up 5.3%; and the Knoxville MSA, up 5.0%. Also notable, although every area increased this quarter, the rate of

increase is starting to slow down. Five areas showed a slower rate of increase this quarter.

Overall, the change in housing prices is higher in Tennessee than for the United States. As seen in the table and graph, the range between the rate of increase for the state and the nation is starting to widen.

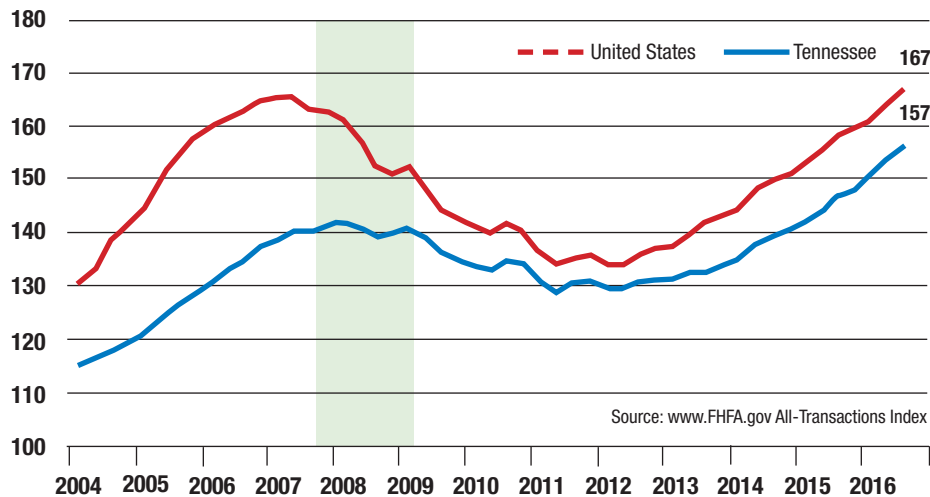
Table 3. Change in housing prices year to year

Area	2015.1–2016.1	2015.2–2016.2	2015.3–2016.3	2015.4–2016.4
Chattanooga MSA	5.1%	4.1%	3.4%	2.6%
Clarksville MSA	2.4%	4.5%	2.6%	4.2%
Cleveland MSA	-0.5%	5.8%	1.8%	2.8%
Jackson MSA	6.1%	4.3%	5.5%	2.6%
Johnson City MSA	-1.0%	2.1%	4.8%	2.4%
Kingsport-Bristol MSA	-0.5%	1.9%	2.9%	1.3%
Knoxville MSA	2.8%	4.8%	4.3%	5.0%
Memphis MSA	3.8%	3.9%	4.7%	5.3%
Morristown MSA	-0.1%	5.3%	5.9%	1.8%
Nashville MSA	9.5%	10.2%	9.3%	9.9%
Tennessee	6.0%	6.7%	6.5%	6.7%
United States	5.6%	5.7%	5.8%	5.6%

Source: FHFA All-Transactions Index

The greatest quarterly increases were in Nashville, Memphis, and Knoxville. Five areas showed a slower rate of increase this quarter.

Figure 8. Tennessee FHFA house price index (2000 = 100.0)



The range between the rate of increase for the state and the nation is starting to widen.

Mortgage Delinquencies, Foreclosures

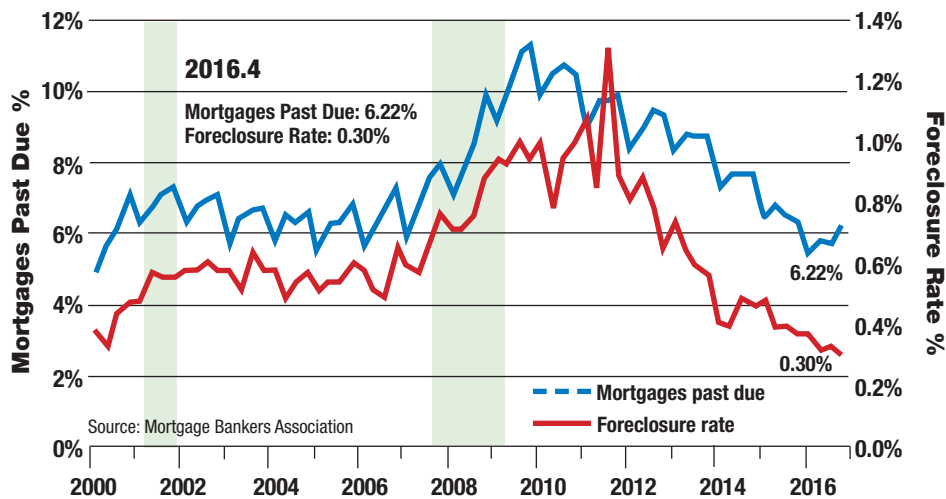
Unfortunately, mortgages past due rose in both the state and the nation this quarter. The percentage of mortgages past due increased by half of a percentage point for Tennessee and a comparable 0.44 percentage point for the United States.

Despite poor performance in mortgages past due, the foreclosure rate fell from the third quarter of 2016, to 0.30% for Tennessee (down 0.03 percentage point) and 0.28% for the United States.

Tennessee saw an increase in mortgages past due and a decrease in foreclosures.

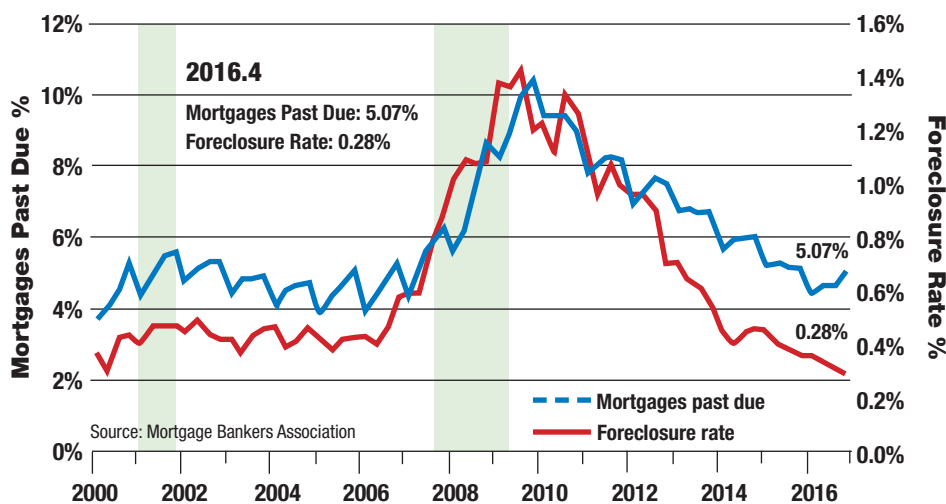
Over the year, delinquencies are down. In Tennessee, both mortgages past due and foreclosures fell 0.07 percentage point. For the United States, mortgages past due increased by 0.07 percentage point, and the foreclosure rate declined by 0.08 percentage point.

Figure 9. Tennessee mortgages past due and foreclosure starts
(percent of mortgages in place)



For the quarter, Tennessee mortgages past due rose half of a percentage point.

Figure 10. United States mortgages past due and foreclosure starts
(percent of mortgages in place)



The U.S. foreclosure rate dropped by 0.08 percentage point over the year.

Conclusion

Compared with the previous quarter, the fourth quarter of 2016 saw slight reversals of trends for certain indicators. In addition to cyclical quarterly drops in tax collections for real estate transfers and mortgages, there were slight increases in the unemployment rate as well as rental and homeowner vacancy rates. However, nearly every area tracked by this report has shown positive growth compared to the fourth quarter of 2015.

Compared to the third quarter of 2016, the number of new single-family construction permits is up 4%. Home

Nearly every area tracked by this report has shown positive growth since the fourth quarter of 2015.

sales are considerably higher. Inventories are down and closings up in the Knoxville, Memphis, and Nashville areas. Furthermore, housing prices over the year are up for all 10 areas tracked and the state as a whole. Moreover, the percent increase in housing prices in Tennessee versus the United States continues to widen as it has for several quarters. ■



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Glossary

Home Closings/Inventory.

Number of houses sold/number of houses with active listings. A high number of closings and a low number of inventories would demonstrate a positive step for the economy. (Source: Greater Nashville Association of Realtors, Memphis Area Association of Realtors, and Knoxville Area Association of Realtors)

Homeowner/Rental Vacancy Rate.

Number of vacant units divided by total number of units. A high vacancy rate indicates poor market conditions, a low one strong market conditions. (Source: Census Bureau)

Labor Force.

All persons employed and unemployed but actively looking for a job. Net changes in number of people employed and unemployed are important gauges of the health of the U.S. job market. (Source: Bureau of Labor Statistics)

Mortgage/Real Estate Transfer Tax Collections.

Amount of taxes collected for realty transfers and mortgages, which together account for a large portion of privilege taxes. (Source: Tennessee Department of Revenue)

Mortgages Past Due and Foreclosures Started.

Percentage of mortgages past due and percentage of new foreclosures started, indicating individuals in financial distress. (Source: Mortgage Bankers Association)

Single/Multi-Family Home Permits.

Level of new single- and multi-family housing construction. Housing permits can be early indicators of housing market activity. New residential housing construction generally leads to other types of economic production. (Source: Census Bureau)

Total Nonfarm Employment.

Total number of paid U.S. workers of any business, excluding government, farm, nonprofit, and private household employees; one of the key economic statistics used to analyze whether the economy is expanding or contracting. (Source: Bureau of Labor Statistics)

Unemployment Insurance Claims.

Weekly average layoff figures. The smaller the number, the better the economy is performing. (Source: U.S. Department of Labor)

Unemployment Rate.

Percentage of unemployed individuals divided by the labor force, a determinant of future conditions, used to determine overall economic health. (Source: Bureau of Labor Statistics)